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Working Paper No. 2

Mid Year Review of the Economy

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A Measuring Rod: This month of the seminar is the half ay point of the First Year of the Draft Five Year Plan, 1978-83. nlike last year's mid year review, (which I called an exercise of histling in the dark), this year's review has a measure against hich the year's audit and balance sheet can be established. And that is the Draft Five Year Plan. This Rs.1,16,000 crores Plan establishes three primary objectives to be attained in the current and next Plan periods (1978-83 and 1983-88): "(i) the removal of unemployment and significant underemployment; (ii) an appreciable rise in the standard of living of the poorest section of the population; (iii) provision by the state of some of the basic needs of the people in these income groups, like clean drinking water, adult literacy, elementary education, health care, rural roads, rural housing for the landless and minimum services for the urban."(1) In reviewing the economy, it will be necessary to see how far a start has been made in these very specific over riding objectives during this one twentieth of the established time span. At this stage, the review will continue to use the usual statistical quantitative that measure the performance or non-performance of the various sectors and sub-sectors of the economy, but it must be remembered that these quantative measures will have meaning only as contribuants or non-contribuants to the stated primary objectives.

The Draft Plan also sets forth a set of three derived, and in that sense, secondary objectives: (i) to achieve an annual 4.7 per cent overall rate of growth of the economy, which involves an annual 4 per cent growth rate in agricultural output, a growth rate 7 per cent per annum in manufactures, an annual export and import growth of 7 per cent at constant prices; (ii) to move towards a sizeable reduction in incomes inequality and assets holding on which a rather unusual section on distributive justice in the Plan document sets forth the policies that are to be followed

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(1) Government of India: Draft Five-Year Plan (1978-83), New Delhi, 1978, p-3.

with regard to land reform, dispersal of urban and corporate property the public distribution system, the distribution of credit and other inputs, development of backward classes and areas, fiscal measures, an incomes policy and the organisation of the poor; and (iii) to continue the progress towards self-reliance in terms of technology and investments in sectors which will eliminate the need for foreign aid which is one of the purpose of the Rs.63,000 public sector outlay.(2) While the second and third derived objectives are like the primary ones long term 10 year - perspectives, the first one concerning the overall growth rate is an immediate issue that applies to this year and needs some analysis.

Overall growth rate: The overall growth rate of 4.7 per cent is regarded as being low, not only in relation to the 7 per cent rate which I referred to in last year's mid term review as necessary to close the growing income gap between the rich and the poor, but also in relation to the performance of the economy during the last year of the Fifth Plan, 1977-83, which was placed at 5-6 per cent (but is actually less than 5 per cent, as will be seen later).(3) In arriving at a judgement about the appropriateness of the rate of 4.7 per cent for the coming five years, the following factors need to be borne in mind. First the rate is well above the realised rate of growth of 3.5 per cent over the past five plan periods. Second this 3.5 per cent has been achieved on the basis of a 2 per cent growth in agriculture and 5 per cent in manufactures which means that a doubling of the two rates must be realised to double the overall growth rate. Third the past 3.5 per cent growth rate performance rests on a savings rate of 12 per cent and net capital formation rate of 14 per cent. In the last two years our savings rate has moved up, as will be noted later, reaching 15.9 per cent in 1976-77,

(2) Ibid p-4

(3) ADISESHIAH MALCOLM S: A Mid Year Review of the Economy - 1977. Associated Chamber of Commerce and Industry, New Delhi, 1977, p-7.

with the rate of capital formation rising to about 14 per cent. There is no reason to believe, (and in fact there is every reason to expect the contrary as will be seen later) that the domestic savings rate can increase dramatically to sustain a rate higher than the one proposed. And that brings us to the crucial and decisive reason for the proposed 4.7 rate. The Plan document in fact sets forth this reason quite forthrightly in the following terms: the pattern of investment and therefore of income generation in the Plan should be such as to redistribute incomes in favour of the poor.(4) There is in this sense, in our current socio-economic structure a trade off between the attainment of a high growth rate and distributive justice. In so far as the pattern of investment is primarily aimed at generating employment on a mass scale at relatively low levels of income, the resulting savings and investment will not support a higher growth rate. The overall growth rate of 4.7 per cent proposed for the next five years has sufficient justification: our task now is to make sure that it is realised.

At this mid point of the First year, its realisation raises a series of questions - questions not related to the arithmetic of the growth rate but to the factors behind it that have been just referred to - creation of employment, increased demand and the move forward of investments. On the one hand as the Economic Survey(5) reminds us, the economy is faced with a series of surpluses - surpluses in foodgrain, in foreign exchange, in savings over investment, in the capacity in some of our key industries such as textiles, steel and jute, in liquidity in the banks, and on the other hand the demand for consumers goods like textiles and food products in the rural areas and that for intermediates and capital goods like steel, coal and industrial

(4) Government of India: Draft Five Year Plan, New Delhi, 1978, p-6

(5) Government of India: Economic Survey 1977-78, New Delhi, 1978, pp 10-12.

machinery continue stagnant and are not picking up. (Recently official statements call attention to the increase in domestic consumption of cement and steel but the extent to which this is due to using up of inventories and slowing down of output isnot clear and needs further examination). The constraint which explains the coexistence of surpluses all down the line and stagnant investment and demand is institutional, and it is the extent to which a start is being made to correct this disequalibrium, rather than whether the economy is about to achieve a 4 or 5 per cent overall growth rate which needs attention.

Actually on the basis of performance of agriculture mainly, it is likely that the economy will register a 5 per cent growth rate again for this year 1978-79. Actually the government estimate at the end of June was a 6 per cent growth rates due to the revised foodgrain estimate. But this increased growth and increased investment including agricultural investment must increase rural incomes of the share croppers, the landless labourers and the rural artisans if there is to be a revival of demand. And this is no easy task. NSS surveys show that while districts with Rs.1,300 per hectare yield level constituting 20 per cent of the total agricultural area and accounting for 36 per cent of total production consume 45 per cent of fertilisers and have about half the installed pumpsets, those blocks with Rs.500 and below yield level are 32 per cent of the area and consume only 13 per cent of fertilisers and have installed only 12 per cent of the pumpsets. This in turn leads to the fact that in 41 out of 56 NSS regions the average per capita consumption of landless labourers was less than Rs.30.(6) Or again comparison of the Reserve Bank of India Debt and Investment Surveys(7) as between 1961-62 and 1971-72 shows not only the wide disparities in income, debts and assets

(6) National Sample Survey 22nd-27th round, New Delhi.

(7) Reserve Bank of India - Debt and Investment Surveys, 1961-62 and 1971-72, Bombay.

ownership between different rural social groups but what is even more disturbing that these disparities are growing. Unless these trends are reversed, increased growth rates and increased agricultural investments (as the Plan document admits)[8] will not lead to a revival of demand for consumers goods. To an extent, many of these factors are reflected in the price situation.

Prices: Prices at this mid year point present a mixed picture. The wholesale price index opened for the current year 1978-79 with a marginal decline (0.6 per cent) at April, 1978 compared to April 1, 1977. The index for the first quarter of the current year 1978-79 continues this trend with a fall of 2.3 per cent at June 30, 1978, over that for the year ending June 30, 1977 and a rise of 1 per cent in comparison with the index for May 1978.[9] This comparative stability in the behaviour of prices is surprising when viewed against the potential inflationary forces which include: (a) the budget taxes on inputs which were critically reviewed by the Jha Committee for their cost push effect: (b) the across the board excise hike of 5 per cent as the main revenue raiser and mobiliser of additional resources in the budget: (c) the rather unusual uncovered budget deficit of Rs.1,050 crores, not covered by any proposal to draw down on any of our buffers and reserves: (d) the mounting foreign remittances and foreign exchange reserves with an average monthly inflow of Rs.200 crores and standing at Rs.4,600 crores in June of this year: and (e) the related sharp increase in money supply for the first quarter of this year 1978-79 at 7.7 per cent compared to the 2.2 per cent rise in April-June 1977, (a major component of which was the Rs.711 crores net RBI credit to the Government, which is one index of deficit financing), and an increase of Rs.550 crores for the 1977-78 busy season when money supply stood at Rs.2,134 crores. This rather

(8) Government of India: Draft Five-Year Plan 1978-83, New Delhi, p-6.

(9) Reserve Bank of India Bulletin: Weekly Statistical Supplement Vol 29, Nos 28 & 29, Bombay, 1978.

unusual expansion of money supply is due both to the bak credit to government as well as the pressure exerted by foreign remittance, (the foreign exchange assets of the banking sector added Rs.692 crores to money supply as at June 24).

In face of these inflationary pressures, how does one account for the relative stability of prices. One and a part explanation is that this was achieved by supply management.(10) Imports helped keep edible oils and fibres prices down, export controls and in some cases time bound bans brought down prices of onions, turmeric, groundnuts and oil cakes and tea, the public distribution system and price controls maintained prices for raw jute, salt, matches, kerosense and vanaspati. A other part explanation is the 2 per cent difference between the 16 per cent rate of savings and 14 per cent rate of capital formation which acted as a deflationary factor. But the more serious cause which operated in regard to stable prices was stagnant consumer expenditure, and this is important in relation to the primary Plan objective of an appreciable rise in the standard of living of the poorest section of the population referred to at the start. Over the last three and a half years, since 1974-75 the country's national income has increased by 6.6 per cent, its per capita income by 4 per cent, while consumer expenditure has increased only by 3.3 per cent. A study of households savings over this period which has moved up from 8.9 per cent of the national income in 1974-75 to 12.4 per cent in 1976-77 points to the same disturbing conclusion that stagnant prices are traceable to stagnant consumer expenditure. The Economic Survey underlines this causative factor in stating that the demand for consumer goods products emenates from a small segment of society (the top 4 deciles) whose demand for this type of consumer goods is in elastic. Earlier reference was made to the stagnant rural demand for cloth, food products, etc. The Survey also points out that

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(10) Ministry of Civil Supplies and Cooperation;
Prices of Essential Commodities, New Delhi, December 1977

the demand for textiles did not increase in urban areas because the real income of urban workers did not increase, with employment increasing by 75,000 per annum in place of double that rate and unemployment as measured by job seekers in Employment Exchanges passing 10.8 millions by October 1977. The extent to which this analysis accounts for our cufrent price quiescence is a measure of the social price that we are paying for price stability.

There are also some longer term issues that this mid term price review needs to bring out. It has been seen that an unusual succession of good harvests can bring or keep prices down but not lead to increased consumption expenditure by the poor majority. The longer term issue is that despite the general trend of price stability, prices of food have risen by 11 per cent and so has the price of textiles in 1977-78 despite our growing buffers (while cereals prices declined by 0.62 per cent, pulses rose by 42 per cent, vegetables by 9 per cent, fish and meat by 11 per cent, cotton and jute textiles by 4.06 per cent and 19 per cent respectively). Here the classical monetarist theory and warning come into play. There is an excess liquidity in the banking system, its net liquidity ratio standing at 44 per cent against the required 39 per cent and demand deposits having increased by Rs.591 crores while time deposits have increased only by Rs.525 crores till June 24, reversing the usual trend (last yeaf, for instance at June 24 demand deposits rose by Rs.124 crores, while time deposit spurted to Rs.880 crores). As a consequences the government and the private sector are using the banking system's liquidity in place of their own resources, reserves and savings. Thus for instance the budget shows that government expenditures - Plan but equally non-Plan are mounting while its tax revenue is not keeping pace and so the increased resort by the government to bank credit as noted earlier. Equally the growing food stocks are financed not by the resources and/or savings of the private sector but through bank credit. Public sector undertakings are producing capital and intermediate goods despite the falling demand for themes noted earlier, and stock pile them on a

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financial basis not of public sector savings but from bank credit.

The private sector faced by stagnant demand also builds its inventories on the basis of bank credit. The Reserve Bank reports that inventory financing by banks has increased from 44.41 per cent in 1974-75 to 49.5 per cent in 1975-76 and their reliance of the firms on funds from term lending institutions and other external sources shows an inexorable upward trend from 27 per cent in 1972-73 to 45 per cent in 1973-74, to 54 per cent in 1974-75 and 57 per cent in 1975-76.[11] Thus the longer term issue that needs to be underlined at this mid term point is that the expansion of bank credit and the total monetary supply in the country are at a point when there is a real danger of inflation being let lose because they have passed the point of what the economy can sustain. There is need to return to the path of fiscal and monetary prudence - of resource mobilisation through further direct taxation, reduction in government's increasing reliance on bank credit, and increased public and private sector savings.

Agricutlure: Agriculture has been performing well at this mid year point. For the agricultural year July 1977 to June 1978, foodgrain production is estimated at 125 million tonnes due to the increased production of rice, jowar, wheat and pulses, which is an increase of 12.9 per cent over that of 1976-77 when a 8.4 per cent decline was recorded. Similarly the production of non-food grains increased by 9 per cent against the previous year's fall of 3 per cent.[12] Cotton production has increased by 10 lakhs bales to 69 lakh bales (as against last year's 59 lakh bales). Jute has increased from last 67 lakh bales to 69 lakh bales. Oil seed output has risen by 8 lakh tonnes to 100 lakh tonnes, including a 5 lakh tonnes increase in groundnuts and 3 lakh tonnes in mustard.[13] This growth

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(11) Reserve Bank of India Bulletin: September 1977 pp 555-557
(12) Lok Sabha Synopsis of Debates, New Delhi, 26 April 1978
( ) Business standard, Calcutta, June 1978.
(13) Ministry of Agriculture and Irrigation: Agricultural Situation: Jan - April 1978 New Delhi
Season and Crop reports Vol. VIII No.7 New Delhi

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of 12 per cent of total agricultural production for 1977-78 when set off against the decline of 7 per cent for 1976-77 gives an average increase of 4.2 per cent for the two years, which is the trend rate of 2.1 per cent per annum. The current Plan agricultural growth target of 4 per cent is a doubling of the realised rate. As at July, (when this note is written) the prospects for a record kharif crop are good, with the Northern states setting themselves a higher rice target and the other states raising their output of pulses (some tentative estimates are of a record khariff crop of 75 million tonnes).(14) If the rabi crop including jute, sugarcane, oil-seeds, cotton and tobacco is as good, the 1978-79 output should be equal to if not surpass that of 1977-78. The positive side of this picture is that there is some decrease in the heavy reliance on a good monsoon. The 1975-76 good performance was accompanied by irrigation (through major, medium and minor works) of an additional 2.4 million hectares, which in turn made possible adding 2.5 million hectares to the 34.5 million hectares under high yielding varieties of seeds and an increase in fertiliser consumption of 0.9 million tonnes.(15)

There are however serious issues raised with regard to our agricultural performance. One is the poor linkages between our agricultural industry and manufacturing industry. This is an empirical hypothesis which needs further testing. But there is more than a curious coincidence in the fact that the 1977-78 record of a high 12 per cent agricultural growth rate is accompanied by a dismally low less than 4 per cent manufacturing growth rate, which has been repeated on four other occasions in the past decade. In 1966-68, 1970-71 1973-74 and 1975-76 bumper agricultural outputs have gone along with low industrial growth, indicating that increased agricultural production with its present poor backward and forward linkages does not sustain

(14) Economic Times: Bombay, October 7
(15) All India Radio: Food Production: Home Service, New Delhi, April 28, 1978.

an equally high level of industrial growth or increased saving or investment, and as we have noted earlier, price stability. A second issue is that the important step taken in the agricultural year 1977-78 in lessening a little our agricultural dependence on the monsoons by the record increase of the irrigated hectorage (2.4 million) needs to be expanded and consolidated. Of the total cropped area of 170 million hectares, 40 million hectares are now under irrigation (which is 24 per cent of the total farm land) and under the current Plan another 10 million will be added, which in turn involves a further 3 Plan periods before even 50 per cent of the total cropped area is under irrigation. This will have to be supplemented by command area development to use a little more fully the present under utilised (to the extent of 40 per cent) irrigation facilities, as well as develop and expand cropping patterns suited to our rainfed areas, particularly those with an assured rainfall. It is only at that point that we can really be assured of an investment oriented primary industry. There is also the problem of mounting food stocks. By the end of July, the total holdings by the government are estimated at 23 million tonnes to which 1 more million tonne will be added by the August procurement. The real buffer stock to be held will depend on the monthly offtake of foodgrains which has slackened because of the availability of cereals of moderate to good quality at reasonable prices in the open market. On the assumption that the offtake for the year will be 12 million tonnes, the buffer stock will be 12 million tonnes. To counter the slow offtake, exports of wheat and rice have been undertaken to Vietnam, Afghanistan, Nepal and the Gulf countries (to which list Pakistan may be added) in addition to the repayment of 1.5 million tonnes of the Soviet wheat loan. It is somewhat paradoxical that a country with such massive malnutrition and under nourishment as ours should emerge as an exporter of foodgrains. Another issue thrown up by increased foodgrains production is the post harvest problems, unscientific storage practices and in adequate facilities, under which some 10 to 20 per cent of food production is estimated to be lost annually. This is the equivalent of food for 50 million people,

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and in value term is around Rs.1,000 crores and suggests that an integrated food policy which pays equal attention to the transit problems between production and consumption needs to be developed urgently. There is also the important starting programme of food for work which only five state governments took up at its start and which will be referred to later under the employment section.

A further issue relates to the primary objectives of the current Plan - namely the per capita availability of food items, leaving aside the further problem of its distribution between various income groups. At the macro level, food production over the 5th Plan periods has increased by annual average of 2.9 per cent, while population growth has been 2.7 per cent, so that there is in effect no income elasticity of food grains demand. More specifically the per capita production of food grains has during this 25 year period increased from 153 kg to 158 kg with a 12 per cent increase in wheat and a sharp fall of 38 per cent (from 26 kg to 16 kg) in pulses.(16) The per capita availability of other essential items which emenate from an agricultural base - sugar, edible oils, cotton textiles - follow a similar trend. Inspite of being the fourth largest agriculture producer in the world, both from the point of view of distribution of items among the various income deciles and in terms of a safety margin for the people vis-a-vis this fluctuating production area, the 4 per cent growth rate leading to a foodgrains production target of 140.48 million tonnes to 144.48 million tonnes in 1982-83 along with the institutional restructuration visualised in the Plan target is a bare minimum.

The institutional restructuration outlined in the Plan document covers the sectors of land reform, organisation of the poor and the minimum wage imperative. The three are inter connected and the importance of operationalising this part of the Plan speedily and effectively stems from the fact that the distributional as well as the production

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(16) Economic Times Research Bureau: Per capita availability, Bombay, 1 April 1978.

facets of the rural scene are worsening. Using the data of the 1961 and 1971 census, it is found that the number of owner cultivators has declined from 60 to 50 per cent, while the number of landless labourers has increased from 18 to 30 per cent of the rural population in this 10 year period.(17) In this context there is need to resolve the conflict between the Agricultural ministry which estimates that the land available for redistribution on the basis of the present ceiling laws is 4.2 million acres and the Planning Commission which using NSS records computes that the surplus land available for re-distribution is 8.60 million hectares or 22 million acres. There are technical issues involved in this controversy arising from the distinction between owned land and operational holdings, or the difference between owned land and operational holdings, or the difference between standard and ordinary acres, the validity of the NSS [illegible] the reliability of the declarations of land owners. What is of interest is that at the time of the start of the ceiling legilsation the surplus was 25 million hectares and by various devices it has now been diminished to 2.13 million hectares. The surplus available for giving land to the landless on the basis of village records is over 20 million hectares and until this is effectively undertaken through what the Plan document calls organisation of the poor, agricultural production increases will not mean improved levels of living for the rural people with its consequences, for sparking industrial growth.

Industry: Manufacturing industry still plays a small part in the economy. The secondary sector which includes mining and manu-facturing, electricity and construction contributed 27 per cent of gross value added in 1977-78, according to table 1.1 of the Plan document.(18) Manufacturing by itself contributes 14 per cent and registered manufactures around 9.5 per cent. In view of the Industrial Policy set forth in the Plan document.(19) and in the government's statement to the Lok Sabha with its distinction between village, small and tiny industries on the one hand and large and medium industries on the other, it is useful to bear in mind this differential contribution

(17) Registrar General of Census: Census Reports, 1961 & 1971, New Delhi
(18) Government of India: Draft Five Year Plan 1978-83 p 5 1978 and Lok Sabha synopsis of debates July 14, 1978
(19) Ibid p 22

to national income of the registered units of 9.5 per cent and that of the unregistered manufacturing units of 4.5 per cent.

The performance of the large and medium industries and the registered units during the 1977-78 has been poor at 3.5 per cent. The sub-sectors which registered a decline in production are coal, pig iron, aluminium, jute manufactures, textiles, industrial explosives, tanning hides, footwear, steel pipes and tubes, tyres and tubes and commercial vehicles, with a near stagnant production in saleable steel, cotton yarn and cement. The good performers were fertilisers, railway wagons and vanaspathi. During the first quarter of this year, there is reported a running down of inventories, in steel, coal and cotton textiles, which may represent an increase in demand for those items, but equally a reduction in current production due to power shortage, industrial unrest and in some case the desire to push up prices. Another indicator of industrial revival is the increased disbursement of term lending institutions which report an additional outlay of Rs.159 crores in the first quarter of 1978, and which again needs to be analysed further to see to what extent this increased out flow is due to increased project costs and over runs and not to fresh investments. Another more serious long term cause for the relatively poor performance of the large and medium industries admitted by the government is the cut back in investments in the past, which was the main burden of my analysis on the industrial slow down in last year's mid term review and which the government's Economic Survey and recent statements also refer to.[20] Nearer home in 1977-78, the Plan expenditures were below the Plan outlay by Rs.230 crores in steel, petroleum and fertilisers.

Is the investment climate and the actual rate of investment improving? Evidence of such improvement is seen in the revival of the capital market wherein capital issues increased in 1977-78 by over 60 per cent vis-avis each of the two previous years and this trend continued in

(20) MALCOLM S ADISESHIAH: A Mid Year Review of the Economy - 1977 Associated Chamber of Commerce and Industry, 1977, pp 2-3 16 & 25.
Government of India: Economic Survey 1977-78 New Delhi 1978 p. 8
Minister for Finance: Address to Gujarat Indo American Chamber of Commerce June 25, 1978
Economic Times July 27. p 7 Bombay

the first quarter of the present year. The stock market response to the current year Budget's tax relief for shares upto Rs.10,000 has led to increases in equity shares and rise in ordinary shares value from 108.8 on February 25 to 122.4 on April 15 and 133.6 on July 26. The All India equity index's high points were 238.53 in 1976 and 242.48 in 1977, reaching 261.48 this year, standing at 258.77 on July 25,[21] and are in major part for this year a response to lower interest rates. The earlier reference to increased sanctions and disbursals by term lending institutions of around Rs.100 crores and Rs.50 crores per month are also appropriate in this regard of the improvement in the investment climate. There are, however some limits to these positive indicators - some part of the increased capital issues resulted from equity dilution under FERA guidelines: the stock market revival has absorbed the advantage of lower interest rates: and the precise purpose of increased sanction and disbursal of the term lending institutions and the execution record on the increased industrial licenses are not yet known. But some improvement in the investment trends must be recorded. The total capital issues increased by 22.2 per cent in April-June 1978, and Rs.33.6 crores of fresh capital was raised in this period. On the other hand the budgeted incremental investment is only a little over Rs.500 crores - 25 per cent of all incremental disbursents and the public sector Plan outlay in 1977-78 is lower at 67.9 per cent compared to 71.5 per cent in the previous year. Also the Plan outlay increase by itself has fallen from 28.9 per cent in 1975-76 to 24.2 per cent in 1976-77, 23.5 per cent in 1977-78 down to 17 per cent in 1978-79 Even so, the Annual Plan and budget can stimulate investment and industrial growth if the constraints of power shortage and industrial unrest are lessened. This applies in particular to some of the industries facing these problems such as cement, sugar, coal and textiles. In the case of the public sector units there is also the problem of managerial effectiveness.

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(21) Financial Express: July 26, p 7 Bombay

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Public sector units continued their increased output trend, which at a lower base was four times that of the private sector over the past half a decade. On the other hand their profitability ratios and return on capital declined in 1975-76 compared to the previous year, particularly in the mining and quarrying units and chemicals (in contrast to the private sector chemical units).[22] The performance budget for 1978-79 shows that for the 16 heavy engineering units the continuation of these trends, of increased production of Rs.872.52 crores (an increase of 5 per cent against the 22 per cent target), but with aggregate losses of 44.41 crores in 1977-78, along with the aim of reducing the losses to 8.79 crores in 1978-79.[23] There is need for improved production management, improved design functioning and more responsible export performance so that the target capacity use of 64.8 per cent for the present year can be sensibly raised.

Among the other sub sectors which need attention is <u>cement</u>, which with an installed capacity of 21.67 million tonnes recorded a production of 19.20 million tonnes in 1977-78.[24] This was an over 90 per cent use of capacity but was short of meeting the 21 million tonnes demand, which was met by 2 million tonnes import. The problem here is the lack of past investments (in 1977-78 with such pressing demand, the Annual Report states that capacity was expanded by a more 0.2 million tonnes). In addition to the efforts to expand the production of the existing units through installing balancing equipment and use of waste products, what is needed is investment in the creation of new capacity, including IDBI's aid in modernising sick units. The resort to mini cement plants is a long term effort, it has been with us for over half a decade, and it is still more years away from becoming effective, as the government's Annual report admits in referrring to its technology as being still in an experimental stage.

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(22) Reserve Bank of India: Bulletin February 1978 pp 110-135 Bombay
(23) Ministry of Industry: Report 1977-78 pp 75-79 New Delhi
(24) Ibid pp 213-248

The sugar industry faces a serious problem arising from record production, price adjustments, mounting losses and sickness. Sugar production in 1977-78 season is estimated at 64 lakh tonnes, which is 16 lakh tonnes over that of the previous year. With sugar consumption generously estimated at 44.5 lakh tonnes as a result, it is hoped, of a more generous p release of levy sugar, a proposal to build a 12 lakh tonnes buffer and to export 6.5 lakh tonnes are being finalised. The problem of a sugar buffer is that it will require special measures agent spoilage and fermentation, and that with exports is that we will have to seek out non-quota countries. If these various prospects are realised the carry over problem will be manageable at 17 lakh tonnes compared to last season's 10 lakh tonnes. Because of the fall in world sugar prices, the loss on sugar exports for 1977-78 is estimated at Rs.2 crores and any further expansion of exports will involve further subsidies and losses. Sickness in the sugar industry due to use of old and obsolete machinery and lack of modernisation as well as some misuse of funds is growing. The Sugar Industry Enquiry Commission identified 16 public sector units, 6 cooperative and 18 private sector mills as sick (the government reports that the 10 mills taken over by it have incurred a loss of Rs.369.78 lakhs in 1977-78) - which are traced to high price of sugarcane (though the dues payable by mills to sugarcane growers at July 1973 is computed to range between Rs.40-50 crores) low price of levy sugar, high cost of inputs, increased interest rates and irregular power supply. This is a sad story for the world's largest cane producer, third largest cane sugar producer and the second important agro-based industry of the country. What is needed now is an integrated policy of modernisation and rehabilitation for this sector which should divide the investment between creation of additional capacity which can be soft pedalled and modernisation on which the soft loans should be concentrated.

Coal is another area where the economy has faced and is facing serious shortages. The 1977-78 production is estimated at 98 million tonnes, with serious shortages faced by the power, cement and medium and small units. The recent report on the Coal Industry by a team of

invited Polish consultants states that it has been working to 60 per cent capacity against its published claim of 95 per cent, with an average production per incline of 100 tonnes per day against 500 tonnes in other countries. Both the production record and the misleading CIL reporting are disturbing. There has also been the additional problem of coordination of the programme as between the Ministry of railways and the Department of coal. Here again what is needed is to translatethe targets of the Draft Plan document into an integrated policy, involving the reconstruction of existing mines to increase their production capacity, rationalise their operations, improve their extractions techniques and ensure the opening of new mines, so that both the 1978-79 target of 113 million tonnes can be attained, and the 1983 increased demand of 150.50 million tonnes can be met. The other urgency is for a coordinated effort by the three ministries - Energy, Railway and Coal - so that the unseemly interministerial bickering and passing of the blame for slackness in prodcution, supply and delivery may cease and both increased production and effective delivery of coal and coke may be assured.

Cotton textile production in 1977 was somewhat lower (fabrics 1.64 per cent and yarn - 0.57 per cent) compared to 1976 and stocks declined by 11.55 per cent. The state of the industry can be guaged by the fact that out of 702 million in the country, 105 are being managed by NTC, 11 added to those that are state managed, and 35 remained closed as at 31 January 1978. The compulsory use of a minimum 10 per cent of non-cotton fibres and their liberalised imports and the ban on cotton exports have not really relieved the industry of high production costs combined with stagnant demand to which references have been made earlier. To some extent this also explains why the scheme of production and price control of controlled cloth which are in operation have not countered the decline in the production of controlled cloth. Against the requirement of 100 million square metres every quarter, the actual production around 85 million square

metres, and to that extent this item of the minimum needs of the majority of the people is not being met. What is also serious is that the programme of modernisation and rehabilitation of this premier agro industry of the country, which the IDRI soft loan window is meant to aid and speed forth, is slowing down because of the general slackness in the sector. IDBI reports that in 1977 out of a total loan application for Rs.361.28 crores from 182 mills, only Rs.40.14 crores from 54 mills were sanctioned. There is need for some leadership from IDBI in this programme.(25) The <u>Jute Industry</u> also had a difficult 1977, with a tight supply situation,

high raw jute prices and declining international and domestic demand for jute goods. From the last quarter of 1977-78 and the first quarter of the current year, there is a pick up of demand both internally and internationally where the sharp rise in the prices of synthetic fabrics has helped in removing the stagnation from jute prices. Production of jute goods in 1977-78 which was a little below that of the previous year is now picking up.

For the current year, the government is aiming at a near doubling of industrial growth at 8 per cent and for this purpose is undertaking an additional power generation of 3,800 MW (which is near double of what was achieved last year), increasing the supply of explosives through full utilisation of the capacity of ordinance factories, and creating new units to increase quickly supply of coal, has increased the cement target to 21 million tonnes, paper production from 9.8 lakh tonnes to 10.13 tonnes, commercial vehicles from 50,000 to 60,000 and railway wagon from 8,500 to 10,000, supported by some streamlining of the functioning of the ministry. These are production areas linked to the supply of consumer goods needed by the mass of the people and to the extent to which they are realised, a start would have been made in realising one of the Draft's Plan's aims.

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(25) Ibid pp 213-248

On the 1977 statement of Industrial Policy reproduced in Appendix I of the ministry's report,(26) there is one element - the special emphasis on small scale, cottage and tiny industries also high lighted in the Plan document as a means of increasing employment and decreasing rural under employment - on which a comment is necessary. The basic intention of this part of the industrial policy is sound, based as it is on Gandhiji's economic insight (himself a non-economist, he had some amazingly sound ecohomic insights) that consumer goods needed by the masses of the people should be produced by the mass of the people themselves. As a first step during the current Plan, the contribution to national income of the unregistered manufacturing sector which is now 5 per cent, as noted earlier, might be increased to 10 per cent. But this will not be accomplished simply by increasing the industrial items reserved for the small sector as has been done from 180 to 504, not by mixing units with an operating capital of Rs.5,000 with those with Rs.1 lakh capital, nor by relying on the arthmetic of their numbers which at the end of 1977 was 2.69 lakhs, because among other matters more than half of them do not exist or are subsidiaries or ancillaries of large units or are sick. (The Annual Survey of Industries 1975-76 reports that of the 71,705 registered factories, 76 per cent were small scale under Rs.10 lakhs capital and 70 per cent under Rs.5 lakh capital).(27) The policy of resorting to small and cottage industry its plans in the consumer goods area - particularly those needed by the poor majority is sound, provided provision is made for (a) real decentralisation upto district and block level for the identification and operation of the small units, (b) their competitive disadvantage as against

(26) Ibid pp 268-284

(27) Annual Survey of Industries, 1975-76, p.23, statements 12 & 13 Central Statistical Organisation, New Delhi 1977

the branches and subsidiaries of large units is recognised and provided for, (c) their lack of entrepreneurial and financial resources are specifically met and (d) their marketing, information and publicity requirements are pooled, and so made viable. In other words the District Industrial Centres may well hold the key to the success of this vital production and priority programme, and to be successful it must be (a) truly decentralised and de-bureaucratised (which depends on the quality of its management), (b) a provider of communication and information services to small producers, (c) a supplier or facilitator of the supply of power and the full round of banking and audit services, and (d) a combined consultancy, distribution and marketing service to the small man. There is an urgent place for this programme if we are to produce and ensure the supply of wage goods: from that point of view some of the reserved items which have a high capital intensity and require processed industrial raw materials and sophisticated technology do not belong to this list: they will not produce wage goods: they will remain a dead letter. With these corrections, I do not believe that the trade off in terms of some slowing of our growth rate or the danger of our resorting to some kind of primitivity is a real or serious one. There is the ethical question of the kind of society we want: the consumerist one or one with limited wants.

Foreign Trade: Provisional estimates of the foreign trade realisation for 1977-78 show a deficit of Rs.580 crores. This by itself is not a disturbing factor, as I for one have been pleading for a planned deficit trade balance as one means of importing machinery, spares and building buffer stocks of these items and some industrial raw materials in order to accelerate industrial and agricultural production in the country. The disturbing element in the deficit is the decline in the export growth rate, which rate is officially estimated at 5.4 per cent (compared to the previous year's 27 per cent) and in some unofficial computations at 2.1 per cent (because

of the higher revised exports for 1976-77)[28] The main declines occurred in cotton textiles, oil cakes, iron ore, iron and steel, leather and fish. Equally disturbing is that the 14.9 per cent increase in imports have occurred not in the imports of capital goods and machinery, and spares and their buffer stocking (a start on which is now being made with the decisions to stock pile electrical generating sets spares at BHEL), and the consequences of the liberalisation of import policy, but in consumer goods and intermediates - edible oils, raw cotton, synthetic fibres, petroleum and petroleum products and chemical fertilisers. In fact available data show the composition of our imports from this point of view - of imports of machinery, equipment and spares declining in 1977-78 - it was Rs.150 crores in 1977-78 against Rs.208 crores in the previous year. This means that for the current year it is important not only to make the effort to aim at realising the export target of Rs.6,000 crores (against last year's Rs.5,250 crores to Rs.5,400 crores), but to ensure that the liberalised import policy is used not for profiteering or import of non-essentials but of the capital goods spares and their buffers that they are intended to ensure.

In our foreign trade profile, there are other features which need some corrective attention. Like the need to examine the competition of our imports, there is need not only to trace the trend in the crude rate of our export growth but also to analyse the components of our export trade, and on this there is a positive note that may be recorded. Over the years, the share of value added items among exports has been increasing while that of the raw materials and unprocessed items have been declining. The latter comprising raw cotton, mineral ores, mica, leather, wool, animal hair has declined from 17.5 per cent of total exports in 1960-61 to 16.4 per cent in 1970-71, 13.4 per cent in 1975-76 and

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(28) Economic Times 10 July, Bombay

an estimated 12.8 per cent in 1977-78.

With regard to the crude rate of export growth which has ranged at a high 20 to 30 per cent in the six years from 1972-73 (at 22.5 per cent, 28 per cent, 31.9 per cent, 21.4 per cent cent, 22 per cent and 27 per cent respectively), the real export performance has to be computed after allowing for purely statistical factors like changes in the exchange rates (which as I pointed out in my first mid-term review was in the nature of a back door devaluation),(29) inflationary price rises (an exogeneous factor vis-a-vis current production), and fortuitous non-growth factors like the export of silver (which represents an accumulation over several decades and not an outflow from current production) the grant-financed exports to Bangladesh (which for the 3 years that it lasted added no foreign exchange resource to the country) and sugar exports (whose 20-40 percent international price rise in in 1974-76 was a one time affair). When these are done, the export growth rates for the past six years are rather modest ranging from 3 per cent to 10 per cent (at 3.2, 6.4, 10.5, 3.2, 10.0 and 10.8 per cent respectively).(30)

Even at these normal rates of growth, some parts of the country's exports are not a reflection of the dynamism of the economy as much as a means of relieving the stagnant domestic demand for the product, as on the case of engineering goods and s steel in 1974-75 and 1975-76 and continuing to date for textiles. Behind this factor, is the stagnation of the investment-income ratio of the economy during the seventies at 13-14 per cent which I have referred to earlier in this note and in my last 3 annual reviews which with stagnant demand has tended to depress industrial production, some of which was relieved by resort to exports. A

(29) ADISESHIAH MALCOLM S: Mid term Review 1975-76 p.16 Associated Chambers of Commerce and Industry, New Delhi 1975

(30) VERGHESE S K: Export Assistance Policy and Export Performances of India in the Seventies. Economic and Political Weekly, Annual Number 1978, pp 245-276 Bombay

final thought in this connection is the reminder that the only purpose of exports is to pay for imports that can expand the production of consumer goods needed by the people and the intermediate and capital goods required for that purpose. Some parts of our export strategy as in the case of iron-ore (where the tiny 3 million tonnes of steel expansion in 3 years has forced us to export 50 per cent of our ore production to Japan mainly, now followed by the Kudremuk project for Iron) or alumina have lost sight of this elemental truth and seem to be undertaken to keep the production of goods going. This is the antithesis of one of our primary objectives - of self reliant growth.

At this point I return to a point that I raised in my review of the economy last year - namely, the cost to the economy of our export growth and on which there were some rather strong reactions. This is part of our public subsidies programme, is wide ranging, and should also be related to the growing protectionism which has stook revealed in the GATT - Tokyo Round. Our public subsidies in the Union budget seems to be inexorably mounting from Rs.470 crores in 1975-76 to Rs.1,100 crores in 1977-78. The budget for the current year announces the decision to cut subsidies, a decision reiterated by the government in view of last year's deficit of Rs.600 crores. In effect however there is no reduction, with the food and exports subsidy being provided at Rs.736 in the 1978-79 budget compared to the budget provision of Rs.744 crores in 1977-78 (revised upward to Rs.842 crores). A fresh subsidy is provided this year of Rs.122 crores for fertilisers. One indicator of our being a high cost economy, making our exports non competitive, is this subsidy element. In regard to export promotion, the eleven incentives operating are wide ranging, comprising (a) cash assistance (ranging from 5.25 per cent of FOB value), (b) import replenishment, (c) advance import licenses, (d) preferential import licenses for export oriented capital goods units, (e) similar preferences to units exporting more than 20 per cent of output, (f) materials supply finance,

at international prices, (g) draw back of excise and customs, (h) concessional export finance, (i) freight subsidy, (j) financing export promotion councils, and (k) permits for export promotion foreign travels. It has been computed that budgeted expenditures, duty draw back, and concessional finance now stand at over Rs.450 crores (up from Rs.85 crores in 1970-71, being a 430 per cent increase). Government expenditure for trade and export promotion now stands at Rs.290 crores (up from Rs.2.10 crores in 1964-65). Using the Euromoney report, it is found that India has the highest export promotion public expenditure at $ 39,605 per $ 1 million exports, compared to the $120 spent by West Germany, $220 by US, $ 316 by Canada, $514 by France, $564 by Japan, $1,146 by Italy and $2,081 by U.K. This rather grim picture needs to be set against the growing protectionism in the industrialised countries which is equally wide ranging as the Tokyo round revealed and at which the developing countries did not succeed in breaking through the many sided non tariff restrictions they confronted, which are more serious in their impact on inter country trade than the straight tariff barriers. The non tariff obstacles which were 75 per cent of what the Tokyo Round was all about include: (a) standards set to act as barriers to trade such as packaging and labelling requirements or food and drug regulations, (c) customs evaluation like ASP, (c) safeguards such as the escape clause restrictions, (d) subsidies and banning of foreign subsidised goods (under which US has declared Indian textiles to be a subsidised product) and (e) discrimination against foreign goods in purchase by government agencies. Returning to the question of reducing our mounting direct and indirect export subsidy programme, I would like to advance the proposal that for the generality of our wide ranging exports, the exchange rate instrument, on which we have a measure of freedom, rather than various forms of cash subsidy including duty draw backs and concessional finance, should be explored and used.

A major supplement to such an effort would be the estab-

lishment and operation of an Export-Import Bank which has been discussed long enough and on which action is now needed. Such a bank would be under the guidance of the expert agency in foreign trade - the Ministry of commerce, with which it could integrate its promotional activity as well as with commercial banks, five of whom are active in this field, as well as with ECGC. This would ensure effective deployment of such export financing as is sufficient and necessary.

Savings and Investment: The main new feature in the savings and investment equation of the country is the curious fact that savings at 15.9 per cent of NNP in 1976-77 has out run net capital formation at 13.9 per cent of NNP. Recapitualating and updating the savings composants of the earlier reviews, the following table is revealing.(31)

	1974-75		1975-76		1976-77	
	% of total	% of NNP	% of total	% of NNP	% of total	% of NNP
Household savings	66.5	8.9	71.2	10.4	78.4	12.4
Private Corporate savings	8.8	1.1	3.7	0.5	1.6	0.3
Public sector savings	24.7	3.4	25.1	3.7	20.0	3.2
Total		13.4		14.6		15.9

Thus while savings increased from 13.4 per cent of NNP in 1974-75 to 15.9 per cent in 1976-77, investment declined during that period from 14.4 per cent to 13.9 per cent. It will be noted that while domestic household savings are on an increasing trend, with physical assets expanding due to increased housing from Rs.3734 crores in

(31) MALCOLM S ADISESHIAH: Mid Year Review of the Economy 1975 p.18 Associated Chambers of Commerce and Industry, New Delhi.
Mid Year Review Economy 1976 p.14
Mid Year Review Economy 1977 pp 21-23

1974-75 to Rs.5592 crores in 1976-77, public sector savings are declining, with the private corporate sector playing a minor role. In this connection, the RBI finding in its survey of 1,650 medium and large public limited companies that capital formation is higher at lower levels (21.5 per cent) for units with Rs.10 lakh capital, whereas it is 0.9 per cent for Rs.1 to Rs.2 crores group and the rates of gross and net capital formation are highest for the Rs.1 to 2 crores group at 19.1 per cent declining to 15.8 per cent for the Rs.2.5 crores group and less than 10 per cent for the largest size group may hold the answer to the private sector savings puzzle.(32) Will the Rs.1,684 crores increase in the 1978-79 Plan outlay increase public sector savings and investment? This is unlikely as the investment component of the current year's plan outlay is at 67.9 per cent lower than last year's 71.4 per cent. The residual question as to why investment has not picked up to match savings has been partially answered in parts of this note. The food grains availability and buffer is not by itself an investment prodder, similarly the foreign exchange reserves are not by themselves an investment resource and as long as investment opportunities are not broadened to include investment in goods classed as part of people's minimum needs, liberal industrial licenses and investment incentives will not per se lead to increased investments. A thought which occurs here is whether a low but stable growth rate (which the Draft Plan proposes) is not preferable to a higher but fluctuating rate for promoting savings and investments at an increasing level, as well as acting as a means of attaining the further Plan objectives of desirable income shifts and price stability.

Employment and Income Policy: Chapter IV of the Draft Plan and its tables and appendix on the sugar industry is a well conceived employment programme, probably one of the best sections

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(32) Reserve Bank of India Bulletin, September 1977. Finance of Medium and Large Public Limited companies, pp 562 Bombay

in the document, in elaboration of the first primary objective. The Draft Plan reverses the Fourth and Fifth Plan traditions of silence on the nature and magnitude of the unemployment problem facing the working force of the country and attempts a quantification of the orders of magnitude involved. It is estimated that as at March 1978 unemployment was 20.6 million man years (16.5 million in rural and 4.1 million in urban areas) and during the Plan period upto 1983, 30 million persons will be entering the labour force. The task is to provide employment to some 50 million persons during the Plan period. And this depends on the distribution of employment between various sectors of the economy, and in the 1971 census it is found that 74 per cent of the work force of 226.9 million is engaged in agriculture, 10 per cent in mining and manufacture and 16 per cent in the services. What is equally important, this distribution has remained unchanged for over half a century, which is a reflection of the weak linkages between the agricultural and non agricultural sectors referred to earlier in this note, Of the annual increase of the work force of around 6 million some 5.45 million are employed in the unorganised sector, and about 5,50,000 in the organised sector, of whom the factory sector absorbs 4,50,000. (ASI for 1975-76 shows an increase of 3,20,000 workers employment in factories using power and employing 10 persons or more and not using power and employing 20 or more workers over the previous year)(33) This means over 90 per cent of the currently unemployed and the new entrants have to be absorbed by agriculture or the smaller tiny sector (less than 10 workers per unit). The employment absorption capacity of agriculture is still under utilised, as in India 84 workers are employed per 100 hectares, compared to Sri Lanka's 87, Pakistan 114, Japan 167, and South Korea 261. In relation to the primary

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(33) Central Statistical Organisation: Annual Survey of Industries 1975-76 pp 6 & 33 New Delhi 1977
Government of India. Draft Five Year Plan 1978-83 pp 81-105, New Delhi 1978

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objective of the Draft Plan of removing unemployment and under-employment, this concentration of employed persons in the agricultural and unorganised sector involves also dealing with the proletarisation of our primary industry, the shrinking of the tiny sector and the dominance of self-employment in this area.

One further fact in this diagnosis of our unemployment situation, is that the first two primary objectives of the Draft Plan - removal of unemployment and countering of poverty are related but separate social facts. The attack on one however, can reinforce the attack on the other. The 25th and 27th rounds of NSS shows that in 1972-73 the unemployment rate (measured by the labour time disposation of person days according to current activity status) was 8.2 per cent in rural areas and 9 per cent in urban areas, where as the Central Statistical Organisation report for 1973-74 shows that over 5 times that number were living below the poverty line (42.7 per cent in rural and 59.5 per cent in urban areas). Further the NSS survey referred to above also show that extreme poverty and full time employment coexist among landless labourers and small and marginal farmers (out of 26 NSS regions where the consumption level of landless labourers was below the national average, 11 had low unemployment rates, of 38 regions where small farmers are consuming less than the national per capita only in 50 per cent of the regions the unemployment rate low).(34) Which leads one to the conclusion that the problem of unemployment is as is as has been noted not that we have a lot of the idle poor but a lot of exploited poor. Even so, a programme to combat unemployment and raise wages (a one per cent cut in unemployment can reduce poverty by 0.24 per cent and one per cent increase in wages can reduce the proportion of the poor by 1.05 per cent) can improve and

(34) National Sample Survey - 25th & 27th Rounds: New Delhi

increased the organisational power of the landless and so lead to the institutional reforms which the Draft Plan calls for.

From this point of view, we should note that a 7 per cent growth rate for industry posited in the Plan will only have to absorb the other 5.4 million persons entering the labour force every year. It is to employ the current unemployed or underemployed that the food for work programme now being launched in every State and the Employment Guarantee Scheme of the Maharashtra pattern can and should be used all over the country so that these ad hoc employment programmes meet the criteria of their being temporary and transitional, and by the end of the Plan period become part of the normal development activity of the economy. The food for work programme which started modestly in 1977-78 with a non-Plan outlay of Rs.20 crores and an allocation of 2,00,000 tonnes of wheat of which only 1,50,000 tonnes were used, is now a Plan scheme with Rs,200 crores and 1 million tonnes of wheat, which makes on the basis of 2.5 kg of wheat per person a day for a programme providing 400 million mandays of employment. As of the end of June, 16 States and 1 Union territory were participating in the programme. There are also important spin off effects of this programme besides creating additional employment. In Maharashtra's Employment Guarantee Scheme with its well planned and dispersed projects, and in West Bengal's well run food for work programme with its weakening of the hold of the rich peasant cum money lender over the landless unemployed and underemployed, the programme has had the effect of raising agricultural wages in the areas. This is important because the food for work and other employment generating programme should ensure that employment is not provided at low and sub-subsistance wages, which will be worse than the problem it sets out to solve. Thus the food for work programme as an Employment Guarantee Scheme, integrated in agricultural and related rural development, agro industries, cottage and village industries will have to be developed as a proper mix in the local district or block plan as a

means of generating employment at adequate wages.

This brings us to a consideration of the Report of the Study Group on wages, income, and prices which has generated in discussions on the report more heat and little of light. I should preface this part of my comments by admitting that I have, as of now, not had the time to study the report in depth. My first reaction is that the report xisxthatxthexreportx is an agenda for discussion, rather than a set of recommendations for action. Even so, the broad purpose of the intention behind this study group as set forth in the Draft Plan document is somewhat complex and a little daunting. The purpose of an income policy are defined as:[35]

(a) deriving from the need to maintain price stability and to mobilise investment resources for the public sector (which seem a little far fetched in a continental economy where over half the people have sub minimal incomes), (b) comprehending all the varied form of incomes - wages, profits, rents and self-employed incomes (which apart from the first are a little difficult to police and have a policy on), (c) choosing between using investment to enlarge incomes of the propertied or employed against using the resources to mitigate unemployment (which is a necessary trade off approach against which the forces of status quo are arraigned), (d) establishing guidelines for accepting and achieving an acceptable disparity ratio (which is sound realism against which the current egalitarian rhetoric needs to be set off), (e) searching out the possibility of extending minimum wages to the unorganised sector (again an urgent need if the search mandate involves means of operationalising it) and (f) suggesting control on expenditure on business accounts and ceiling on professional, trade and business salaries. And so a second comment on the report is that it has really attempted to meet this wide ranging and impossible mandate.

A third comment is to commend its recommendations for further studies through a National Pay Commission on salaries of top

personnel, a Pay Committee on the pay structure of industrial employee of the railways, post and telegraphs, defence and other departmental undertakings, and a Pension Commission. I have some doubts about the proposal for a Bureau of Income and Prices, whose functions are beyond a studies and research body as it is required to aim at setting guidelines within which collective bargaining can take place in each country. My doubts are pragmatic relating to the impractability of the proposed functions in the present situation of industrial relations in the country. In any case to some extent the pitch has been queered by not exceeding these functions to all incomes. There is no reason why top salaries every where as well as professional incomes which are not simply a reward for higher skills or entreprenurial ability, but have a rentier element due to the uneven spread of education and training in our country at the present stage of its development as well as family and assets relationship, should not be subject to similar guidelines.

A final comment is the somewhat puzzling recommendation for a Rs.100 national minimum wage leading on to Rs.150 at 1978 prices in the next seven years. The basis for this recommendation will be known when the data from which it arises is subject to scrutiny. There are two problems here: First these sums are not only below the current minimum wages where they operate as in Kerala, Punjab or parts of Tamil Nadu, but even at its maximum is well below the per capita poverty level of Rs.61.80 for rural areas and Rs.71.30 for urban areas established by the Planning Commission. (This is on the assumption that in a family of five, two earn the minimum wage). Second what is needed is some intensive data collection with regard to the unorganised sector about which we have really no data and on the basis of which a convincing recommendation can be made about the minimum wage and the means of its operationalisation. The complementary to this subject which

is still a rather dark area is the income and salaries area on which data is available and on which ceilings could be established. In fact in our mixed economy any proposal to allow incomes to be earned freely without limit and to control and restrict their expending is bound to be a non starter, as the attractive Fifth Plan attempt demonstrated.